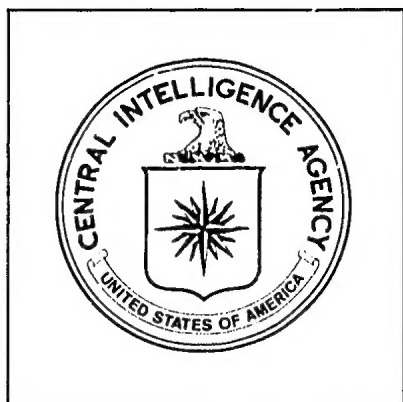


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WESTERN EUROPE – CANADA – INTERNATIONAL ORGANIZATIONS

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French and British Defense Ministers Meet

The successful first meeting of the French and British defense ministers last week in London suggests that political-military consultations between the two countries may well increase.

The political-military dialogue between France and the UK was particularly active during the Pompidou-Heath days and reflected the generally warm period of bilateral ties at that time. With the election of the British Labor government in 1974, the dialogue tended to lapse. French President Giscard, moreover, preferred at first to deal closely with West German Chancellor Schmidt. The French seem to have decided, however, that they should cultivate the British on those issues on which they have a common interest in order to balance West German assertiveness.

While atmospherics dominated substance at the ministers' meeting, Bourges and Mason both came away with a positive impression of each other personally and of each other's defense establishment, according to French and British defense ministry officials. These lower level officers now feel they have clear authorization to proceed with periodic staff level talks and are preparing a meeting for November 18-19.

Substantive talks between the ministers centered on bilateral armaments cooperation. They agreed that these programs, particularly for "anti-type" missiles, helicopters, and fighter--as opposed to strike--aircraft should continue and expand. The French indicated a keen

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interest in a British helicopter-launched, anti-
shipping missile system. Contrary to British
expectations, the French did not protest London's
decision to buy the US-made Harpoon instead of
the Franco-British air-to-surface tactical Martel
missile.

The ministers discussed the recently concluded
US-UK memorandum of understanding covering trade in
military equipment and Mason stressed its compati-
bility with the concept of a European armaments
industry. French Minister Bourges reiterated his
proposal that the issue of NATO standardization
be examined by the quadripartite armaments directors
rather than Eurogroup--the informal caucus of the
European members of NATO. He received an "ambiguous"
response. The two also discussed the Anglo-French
memorandum of understanding covering trade in
military equipment and had no problems with the
fact that the agreement favors France by a sub-
stantial margin.

Issues related to the two countries' strategic
nuclear forces, particularly any possible coopera-
tion, were not raised according to British officials
who briefed US embassy officers in Paris. [REDACTED]

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Pressure for Import Controls Continues Unabated
in Britain

Ron Hayward, general secretary of the Labor Party, has called on the Wilson government to enact selective import controls immediately in order to curb rising unemployment. Hayward is concerned about the political impact that "massive unemployment" would have on the Labor Party. He acknowledged the danger of retaliation by other countries, but asserted the risks had been overstated. He claimed that both Italy and Austria had gotten away with such controls.

Hayward's call is the latest of a swelling chorus of demands from trade unionists and Labor politicians for import controls. The annual conference of the Trades Union Congress in September formally urged the government to adopt selective controls. Earlier this month delegates to the Labor Party conference followed suit. TUC leaders are scheduled to meet with Prime Minister Wilson next week and are certain to bring up this subject. Union leaders have also urged the government to persuade British firms to "buy British" even though they would have to pay marginally higher prices.

Although Wilson, Chancellor of the Exchequer Healey, and Trade Minister Shore continue to resist demands for controls, they are clearly concerned about the unemployment situation and the protectionist pressures it stimulates. Joblessness in October grew to a seasonally adjusted rate of 4.7 percent--up from 2.7 percent a year ago--and is expected to keep on rising well into next year. Government leaders are apparently

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intent on avoiding protectionist measures, but they will be under increasing pressure to aid hard pressed industries such as textiles, footwear, television, and automobiles. [REDACTED]

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ANNEXIceland and Europe Talk About Fish

Icelandic and British negotiators begin another round of talks on October 23 in an attempt to reach a new agreement regulating fishing in waters around Iceland. If agreement is not reached by November 13--when the current agreement expires--another round of incidents between British fishermen and Icelandic patrol vessels is possible. Other countries with strong fishing interests in the area--West Germany, Belgium, Norway, and Denmark--are also planning to seek agreement with Iceland.

The fishing industry is vital to Iceland's economy and the Icelandic government is extremely sensitive to any developments which might affect the industry's prospects. In addition, public emotions are easily aroused over this issue and Icelandic leaders claim that they cannot defend membership in NATO if their allies do not support them on an issue of economic survival. At the time of the last Cod War between Iceland and Britain in 1972-73, Reykjavik sought US intercession by threatening not to renew the bilateral defense agreement under which the US operates the NATO base at Keflavik. Although the agreement was subsequently renewed, base opponents are once again becoming active, and Icelandic leaders warn privately that the base will again become an issue.

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SECRETEconomic Background

Iceland derives about 75 percent of its export earnings from the sales of fish and fish by-products. The fishing and fish processing industries are the largest employers in Iceland. During the past decade, Iceland's economic prosperity has been increasingly threatened by the expanded operations of foreign fishermen, tougher competition for foreign markets, and declining fish resources.

Iceland has for some years tried to control foreign access to its fishing grounds. A 4-mile fishing limit declared in 1952 was extended to 12 miles in 1958, and to 50 miles in 1972. Despite the growing restrictions, foreigners still catch more than half of the fish netted around Iceland. In addition, each extension provoked a "Cod War" between the Icelandic coast guard and foreign fishermen that finally had to be settled at the governmental level. Iceland's 1973 pact with the UK was written for only two years because Reykjavik believed that the UN-sponsored conference on the Law of the Sea might set international limits greater than 50 miles. Earlier this year Iceland announced that it was unilaterally extending its fishing limits to 200 miles on October 15, just 29 days before the pact with the UK expires.

Talks Begin

At their first round of current talks in Reykjavik on September 11, the British proposed a new agreement along the lines of the expiring pact. The agreement provided for:

--a ban on fishing within a 12-mile limit;

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--discretionary Icelandic closure of
any of six zones comprising the
12 to 50 mile area;

--fishing "seasons";

--fishing by specific trawlers only;
and

--an annual catch limit of 130,000 tons.

The British proposed to negotiate a reduction in the catch limit, the number of trawlers, and adjustments in the dates and areas. They want the new agreement to run up to 10 years.

The Icelandic team responded that any new pact had to regulate fishing in the 50 to 200 mile-zone, and that it had no mandate to permit any fishing within the 50-mile area. It agreed that there would have to be sharp cuts in the catch limit and numbers of vessels. The first round of talks adjourned with the two sides still far apart on major issues.

The German Angle

Although the British comprise the largest contingent of foreign fishermen and constitute the principal problem for the Reykjavik government, there have also been growing difficulties with West German fishermen. The principal issue is Iceland's refusal to allow large freezer trawlers to operate in its waters. In recent years, the West German fishing fleet has largely converted to this modern, efficient vessel.

Reykjavik and Bonn, nevertheless, had a draft agreement in hand in 1974, but it was too controversial for the weak Icelandic coalition

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to push through parliament. After a series of incidents at sea, Bonn prohibited the sale of Icelandic fish on the German market and, more important, blocked implementation of a pending Icelandic tariff agreement with the European Community.

In talks with the UK and the Belgians last month, the Icelanders insisted that they would not implement new fishing agreements with any EC member until the tariff agreement is unblocked. Foreign Minister Agustsson subsequently told his West German counterpart that Iceland would not even "negotiate" as long as the tariff agreement was in suspension. Following Bonn's decision on October 15 to lift the ban of fish imports, however, Agustsson agreed to begin talks on October 28.

Looking for Help

Iceland has tried to rally international support for its position, but with only modest success. The International Court of Justice in 1972 did not support the 50-mile limit, as a result of which Reykjavik has adamantly rejected the Court's jurisdiction in such matters. Reykjavik has found a gradually emerging consensus at the Law of the Sea Conference to allow coastal states to determine the allowable fish catches in 200-mile zones. Iceland is particularly encouraged by what it sees as growing support within the US for the 200-mile principle.

Iceland has been disappointed, on the other hand, that the other Scandinavian states have been relatively lukewarm in their support. The Nordic Council last spring limited itself to an anodyne "understanding" of Iceland's reasons for extending the fishing limit. In

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late September, a Norwegian official added that while the longrun objectives of the two countries coincide, Norway prefers to await the results of the Law of the Sea Conference. Iceland will have to negotiate with Norway and Denmark if both ultimately adopt the 200-mile principle, for Jan Mayen Island, the Faeroes, and Greenland are less than 400 miles from Iceland.

View From Reykjavik

The ability of the current Icelandic coalition to negotiate is restricted by history and by domestic political considerations. Past fishing agreements more frequently than not have been negotiated in the wake of bitter disputes over fishing rights and no previous government has begun negotiations in a spirit of compromise. To adopt an easy line now would leave the Hallgrimsson coalition vulnerable to charges that it is not protecting Iceland's vital national interests. The opposition, indeed, is already charging that the coalition has failed in this regard.

Deep political divisions, the link between fishing and the national economic wellbeing, and a chauvinism bred of relative physical isolation militate against an easy compromise. By early September, numerous public and private organizations had petitioned the government to allow no foreign fishing within the old 50-mile limit, where most fish are caught, and sharp limitations in the 50 to 200-mile area. The Communist-dominated Peoples Alliance, the principal opposition party which holds 11 of the 60 seats in parliament, eagerly champions this line. In addition, important elements in both coalition parties, Hallgrimsson's Independence Party and Agustsson's Progressive Party, support this tougher line.

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The deep divisions within the Progressive Party has forced the party leadership to delay taking a stand. This failure in turn prevented the coalition from adopting a formal government position, leaving Reykjavik's negotiators for a time in the position of listeners rather than bargainers. Hallgrimsson and other Independence leaders privately have been inclined to seek accommodation with the British on continued, but restricted, access within the 50-mile zone. In public, however, they have advocated a hard line for fear of being outdistanced by rank-and-file party members.

Prospects

The differences between Iceland and the UK and West Germany are too great to be resolved in the talks this week. British and German officials believe, however, that all parties are now ready to move quickly and reasonably to agreement. The British further believe that although the talks will extend beyond the expiration of the current treaty, Iceland will not resort to "Cod War" harassments.

The Europeans appear overoptimistic. Although Iceland no doubt would like to avoid a new "Cod War," domestic pressures are likely to compel the government to take a harder line than either the UK or the West Germans anticipate. London and Bonn officials apparently are confident that they have the upper hand, a position Icelandic leaders would sharply dispute.

Harassments will become more likely the longer the talks continue. This could inflame emotions on all sides, especially in Iceland, and generate new pressures for US intercession.

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